STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Kate Giard, Chair
Dave Harbour
Mark K. Johnson
Anthony A. Price
Janis W. Wilson

In the Matter of the Consideration of Adoption of Regulations to Implement Amendments to the Public Utilities Regulatory Policies Act of 1978 by the Energy Policy Act of 2005	)	Docket R-06-5

RESPONSIVE COMMENTS OF CHUGACH ELECTRIC ASSOCIATION, INC.

I. Summary.

Chugach Electric Association, Inc. (Chugach) appreciates this opportunity to respond to comments submitted by the Network for New Energy Choices (NNEC) and Homer Electric member / consumer Mr. Peter McKay (Commentors). Both Commentors have made useful points that are helpful to the Commission's and utilities' consideration of this matter. From Chugach's perspective, the comments further support Chugach's view that net metering is not an effective long-term strategy for developing workable renewable energy resources but instead will lead to a wasteful investment of ratepayer funding in resources that are not economically viable in Alaska. However, Chugach believes that the Commentors' goal of support for renewable energy can be positively addressed in this docket, although not precisely as they have suggested.

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II. Three Principles.

Before making specific comments, Chugach believes it would be useful to list the basic principles that should guide us in determining regulatory policy with respect to renewable resource additions. Chugach suggests those three principles are:

1. Payments from utilities for renewable generation should reflect avoided costs so that low cost generation is not being backed down to take higher cost energy;

2. Renewable energy projects that can compete with traditional energy sources by providing cost or reliability benefits should be supported; and,

3. Any subsidies determined appropriate for the encouragement of renewable energy projects should be explicit, justified and not supplied by ratepayers. Subsidies should be obtained outside the costing/pricing framework.

Chugach believes that if these general principles are used to guide us, then it is clear that net metering is not appropriate. At the same time, we can develop appropriate encouragement for renewable energy projects by applying these principles.

III. Payments Should be Cost-based.

NNEC makes several arguments with which Chugach agrees. First, the section of their comments titled "Unwarranted Utility Concerns" beginning on page 13 discusses the need for unbundling costs as a necessary step to avoid cross-subsidization. Chugach agrees. In its most recent rate case, Chugach has requested unbundled rates based on unbundled financial data. This approach is consistent with developing cost data that can be used to determine the appropriate rate to be paid for renewable energy. Careful

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application of ratemaking principles to financial records can be used to develop appropriate rates from many purposes, including for payments for renewable energy.

NNEC asserts that the cost of electricity is significantly higher at peak periods and that renewable energy producers provide their surplus during these times. NNEC argues that crude tools are typically used for both pricing and meeting load. While Chugach does not accept generally that renewable energy could be produced on peak in Alaska stated by NNEC, Chugach does agree with NNEC that unbundled rates and, perhaps, time-differentiation of those rates would be a positive step forward from crude bundled rates. By its structure, net metering requires payment for renewable energy as a price much higher than it costs the utility to generate power. This creates a subsidy from non-net metered members to members that are generating their own electricity. Based on that view, Chugach believes that net metering would simply be the implementation of another crude tool.

Rather than net metering, at a minimum, both the consumption and production of electricity should be metered and more sophisticated metering should be used to capture specific times of consumption and production to ensure equitable determination of cost responsibility on the system. Only in this way can utilities, regulators and renewable energy producers determine the right price for renewable energy.

IV. <u>On-site Renewable Energy Should be Supported</u>.

Chugach supports retail members who would like to produce on-site renewable energy. Indeed, Chugach already has established a tariff for Standby/Buyback rates for

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its retail members who wish to wholly or in part provide their own electric supply. That tariff provides the cost-based building blocks for both renewable and non-renewable electric supply provided by retail members. In addition, Chugach has established interconnection standards for its system. While, as Mr. McKay has pointed out, these requirements may increase cost to the retail member to ensure safe operation, they are even-handed and consistent with the IEEE standards.

V. Any Required Subsidies should come from an External Source.

While Chugach strongly believes that payments for on-site renewable energy generation should be based on the utility's system cost, Chugach does not oppose explicit subsidy for renewable energy – as long as it is external to the utility pricing scheme. If the current situation with renewable resources is that they are more costly than standard utility service but policy makers believe that public money should be used to subsidize development of these resources, they may need to be subsidized. However, that subsidy should not come in the form of a non-cost-based rate imposed on some customers to generate an excess to be disbursed to other customers who have developed less efficient resources. Rather, any subsidy should come from legislative grants or other external sources.

Federal and state governments have found it appropriate to provide tax incentives for consumers who wish to pursue renewable energy when those sources of energy are not cost-competitive.

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Utilities themselves have found ways to support renewable energy also. Green Pricing is a long-established approach, whereby consumers can choose to pay higher prices for renewable energy whose cost is higher than the standard alternatives.

In Alaska, where the major Railbelt utilities are either municipal or cooperative entities, all have responded in one way or another to adopting renewables. Golden Valley has adopted a program called SNAP to support renewable energy on its system. It does not use net metering but rather requires multiple meters. It does provide a subsidy to providers of renewable energy but only from a voluntary fund generated from contributions by its members. MEA has recently announced its intention to acquire renewable energy. ML&P and Chugach have both been active in pursuing wind energy but has sought external funding for extraordinary costs to eliminate the possibility of cross-subsidization by other customers of this renewable resource.

VI. Recommendation.

The Commission should not require the use of net metering. Rather, it should support renewable energy by establishing a system for cost-based payments from utilities and allowing any desired subsidies to come from external sources.

Dated this 28th day of November, 2006.

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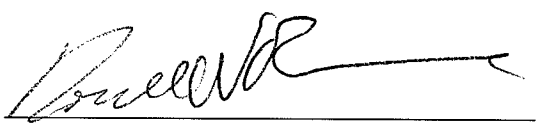
Attorneys for Chugach Electric Association.

By: 
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